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MUNICIPAL INFRASTRUCTURE
A review with recommendations for the establishment of The MUNICIPAL DEVELOPMENT FUND

FINAL REPORT

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Report to the
Government of Manitoba
March 31,1987
by
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SUMMARY

The government is committed to reforming the existing program delivery system which provides grant and other support to municipal infrastructure by introducing a new rural development fund. The need for additional monies is demonstrated both by the deterioration of existing infrastructure and the inability of many communities to meet minimum provincial environmental and other standards. The requests for grant support have significantly outstripped the appropriations, except for Main Street Manitoba where demand peaked in 1984.

The existing programs work well and need only minor operational changes. The programs should continue to be delivered by the departments currently responsible. The proposed new Fund should be established to act as an umbrella funding agency and supply the grant monies to local government via the programs.

This new Fund should be called "The Municipal Development Fund"; it should have a minimum five year mandate with an appropriation of $15 Million per year- $75 Million in total. All program grants should be based on 50/50 cost-sharing with local government. This will result in a minimum of $150 Million in municipal infrastructure capital spending over the next five years, directly stimulated by the Fund. With federal participation through ERDA or otherwise , this figure could double to a five year- $300 Million program. The Municipal Development Fund will represent a major provincial presence in rural Manitoba focusing existing and new programs under one identity.

Some changes are suggested for existing programs:
The Manitoba Water Services Board granting formula should be simplified and the Board should not pay operating subsidies to local utilities. The province should require local governments to establish water and sewer reserves that are sufficient to replace existing systems at the end of their lifespan.

The present Main Street Manitoba program should be phased out and replaced with a downtown redevelopment program designed to assist urban renewal in the province's larger urban centres. The Street Contruction Grant Program for urban centres should be broadened to include a bridge replacement program for both urban and rural municipalities.The Manitoba Community Assets Program (municipal component) should be reactivated as a funding mechanism for municipal buildings and other special projects.

The Fund should commence on April 1, 1987. If this is not possible, the next fiscal year should be used as a phase-in period for implementing the recommended program changes, within the existing funding and appropriation authority.

GOVERNMENT COMMITMENTS

During the 1986 provincial general election, the New Democratic Party, subsequently re-elected as government, committed itself to the establishment of the Rural Development Fund. On March 5th, 1986, Premier Howard Pawley announced the Fund as the successor program to Main Street Manitoba and the Manitoba Community Assets Program. The program was described as a 50/50 funding vehicle for "roads, bridges, water and sewer systems in Manitoba's towns and villages". This committment was seen as the logical extension of several provincial government programs designed to assist local government with infrastructure capital funding.

In anticipation of joint federal-provincial discussions on municipal infrastructure financing, the province had agreed in principle to a new committment of $6 Million per year over three years, in August 1985. A request in August 1985, by the provincial Ministers of Municipal Affairs, for federal-provincial meetings to negotiate cost-sharing of infrastructure capital funding was unanimously renewed in August 1986, in St. John, Nfld. No meetings have been held to date. As a result, the Manitoba government's willingness to commit new funds has never reached the negotiation table or been made public- except through the campaign committment noted above.

In the spring of 1986, during consideration of his estimates, the Minister of Municipal Affairs announced that no new project approvals were to be provided under the auspices of Main Street Manitoba. In addition, the government did not provide for a 1986/87 fiscal year Manitoba Community Assets Program. The Minister of Finance in his budget address advised the public, and municipalities in particular, that: "Capital programs included in the Jobs Fund have made an important contribution to the long-term development of our communities. Building on the successes of Main Street Manitoba and the Manitoba Community Assets Programs, a fund for rural development will be established to improve the quality of roads, bridges, and water and sewer systems in rural municipalities, towns and villages. Community facilities will be supported through a capital program funded from lottery revenues."

In essence, the above three points represent the governments specific commitments to date with respect to changes in municipal infrastructure capital financing.

EXISTING PROGRAMS

The provincial government provides capital funding support for municipal purposes through a variety of programs. These programs provide capital funding and other supports to a multiplicity of projects from basic utilities to cultural and recreational facilities. Since the purpose of the Rural Development Fund was clearly stated to relate only to hard infrastructure and utilities, only those current programs are examined here.

MANITOBA WATER SERVICES BOARD (MWSB)

The Manitoba Water Services Board(MWSB) administers a number of water related programs directed to the provision of potable water supplies and adequate sewage disposal facilities throughout Manitoba. With the exception of programs that are cost-shared with the federal government under the aegis of the Prairie Farm Rehabilitation Administration(PFRA), the MWSB programs are almost exclusively directed to urban areas. The exception is the cost-shared Agri-Water/PFRA program on Community Water Source Development which serves small communities of less than 300 population and rural/farm areas. The Municipal Sewer and Water Program is exclusively directed to incorporated cities, towns and villages, with provision for inclusion of unincorporated village districts(UVD's). It is the largest infrastructure grant program provided by the province in support of municipal capital investment in utilities. (The City of Winnipeg has not been eligible in the past because its debenture debt has been inadequate to trigger funding under the formula. Winnipeg also receives block funding intended to assist with its capital requirements for infrastructure. Therefore, Winnipeg has never been approved by Order-in-Council as an eligible program participant.)

The Agri-Water Community Water Source Development Program is designed to identify and develop a water supply for communities with populations of less than 300 or small groups of 5 or more rural residents who apply with the concurrence of their local rural municipality. This program has an annual cost to the province between $100 and $200 Thousand. This program is jointly funded with PFRA and is currently being redesigned to target federal dollars more directly in tune with locally perceived needs. PFRA will become more responsive to consultation with local communities rather than designing systems first- which has often occurred in the past. Essentially, this program is a small community oriented extension of the water source component of the Municipal Sewer and Water Program run by the MWSB.

The Municipal Sewer and Water Program is a complex program which provides grants, loans, engineering assistance, and

administrative support services to local government in meeting local water and sewer infrastructure needs. Despite this complexity the program is well received by local government.
Since most municipalities in Manitoba are not of sufficient size to warrant the expense of maintaining an in-house engineering capability, the engineering support services are extremely valuable to local government; this is particularly important as a check on the engineering work done by private consultants. Local governments rely on the board staff as an important filter in the absence of local expertise. The board's engineering staff also serve as a screening mechanism to protect the province's interest not only on technical performance criteria, but also with regard to environmental and fiscal considerations. Almost without exception, the engineering advice is reflected in the municipalities construction activity (the only significant exception in recent years was the City of Portage la Prairie's deep shaft sewage treatment facility). The board essentially assumes responsibility for water and sewer projects once approvals for a particular project are obtained from the province and the local government. Board staff manage the system design, call tenders, award and administer contracts, provide interim financing, supervise construction, provide system testing and start-up supervision and turn the system over to the municipality one year after completion. Local governments are therefore, quite logically, very supportive of the program.

Nonetheless there are two areas of complaint. It is suggested that the program's funding is inadequate and its grant formula administration is too complex. Both complaints can be justified. As will be seen in Section 3 of this report, senior government support for municipal infrastructure has not kept pace with inflation over the last decade and water and sewer investment has traditionally been the largest user of municipal capital dollars. Therefore the inadequacy of senior government funding is most noticeable in this sector. The ending of the joint federal/-provincial Agricultural Services Centres Agreement in 1982 caused a 40% drop in grant monies available to the board in support of local infrastructure. The agreement had provided an additional $2 Million per year to the board's base appropriation of $3 Million; as a result both senior levels of government had each been placing an average of $1 Million additional money per year for 10 years into water and sewer grants. Although the province had not changed the base appropriation provided to the board, the funds available shrunk from $5 down to $3 Million per year (the Jobs Fund fortunately intervened for three years with additional funding). This reduction, when combined with the relatively high rate of inflation in the construction industry, dramatically reduced the board's granting capabilities. The MWSB has calculated that its $3 Million appropriation for grant purposes has been shrunk by a construction index factor of .591 in fiscal year 1985/86 over fiscal year 1978/79 to render only $1.773 Million available in 1985 when measured in 1978 dollars. In other words, the 1978

allocation would have required an increase to $4.773 Million in 1985 dollars to do the same amount of work; in 1985/86 the grant level was increased to $3.6 Million.

In 1986/87 the actual grant appropriation stands at $4.1 Million although $1.6 Million of this amount is dedicated to a specific municipal project related to a new industrial development. These types of projects would not normally be funded from the appropriation base grant, so the grant has effectively been reduced to $2.5 Million. Since the Estimates were tabled in the spring of 1986, both amounts have been increased by several hundred thousand dollars- the base grant grew from $2.5 Million to $2.771 Million and the special project grant grew to $1.965 Million- to a new total of $4.736 Million for the current fiscal year.

The Manitoba Water Services Board's inability to cash flow their full appropriation has complicated their chronic grant shortage. Until fiscal 1985/86 the Board committed funds to the amount of its estimates appropriation and consequently under spent its legislative allocation every year up to that time. The amounts of money lapsed at years' end were very substantial in some years. For example, in 1983/84 $1.823 Million was unspent; and in the following year $1.906 Million lapsed at year end. The total allocations for those years were $4.887 and $5.155 Million respectively. In 1985/86 this problem was addressed by the introduction of an over-committment policy similar to that used by the Department of Highways Capital Construction Program. The MWSB now uses a factor of "2" when committing grant funds. This requires the imposition of conditions on approvals provided to local government and the possibility that funds may not be available for all conditional approvals. While these conditions may interrupt local project planning, the results are clear. In 1985/86, less than $500,000 were lapsed at year end. The projection for the current year indicates even more accurate cash flow management.

The above comments on cash flow management should not be assessed solely as a criticism of the MWSB administration. The Board received additional funds from the province through the agency of the Jobs Fund starting in 1983/84 for three consecutive years. However, the Board usually needs up to three years lead time in planning for larger infrastructure projects and the result was that the infusion of Jobs Fund monies was under utilized in the first two years. When the Federal-Provincial cost-shared Agricultural Services Centres Agreement expired in 1981/82, the Board reduced their anticipated level of activity, and was unable to gear up quickly when Jobs Fund monies became available a year later. Nonetheless the Board now has many small projects "on the shelf" which can be activated quickly to ensure maximum use of its appropriation. This has occurred both because of the over-committment policy and also because of the backlog of demand for

municipal sewer and water improvements.

The concerns that have been expressed respecting the Board's funding formula are more easily addressed than the inadequacy of the actual funding levels. The single most common complaint is that the formula is too complex. It is neither clear nor easily understood. The result is that municipalities are unable to evaluate their grant entitlement when planning sewer and/or water construction projects. They must go to the MWSB to establish the "mysterious" amounts and are unable to independently verify the calculations. When one examines the detail of the formula, the complaint is understandable and appears justified.

The formula attempts to take into consideration both the financial capabilities of a municipality, including existing debt, and any major physical problems which will affect the cost of the project. A provincial grant is paid only on projects which cannot be repaid by the municipality by means of a 20 year debenture with repayment financed by an 8 mill tax for sewage; a 12 mill tax for water; or a combined 20 mill tax for sewer and water. Consequently, existing water and/or sewage debt is taken into consideration when calculating the point at which eligibility for grants is triggered. All costs in excess of the appropriate above noted mill rate, over 20 years, calculated at current borrowing rates on the municipality's equalized assessment, are cost-shared. Cost-sharing is on a 50/50 basis between the province and the municipality. In addition, because of higher construction costs in remote areas, organized municipalities north of the Northern Affairs boundary are eligible for 60/40 provincial/municipal cost-sharing. Where solid rock is encountered a further special provision has the province pick up 50% of the additional costs, with the balance allowed in the grant calculation as municipal costs eligible for cost-sharing. Effectively, the theoretical maximum provincial support for such a project could approach 75% provincial funding.

Despite changes in the formula two years ago which provided for a floating interest rate and made special provision for both northern construction and solid rock excavation costs the formula still has a number of serious deficiencies in addition to its complexity. The formula uses equalized assessment as a basis for determining municipal contributions to sewer and water works. In the past equalized assessment was viewed as a measure of the relative wealth of municipalities, until the Manitoba Assessment Review Committee confirmed that this measure was totally inaccurate on a local or province wide basis. In essence, equalization was calculated so as to produce a minor percentage adjustment to balance off age differences in the current assessment of a specific municipality in relation to all others in the province. Its failure to achieve a fair balance was demonstrated throughout the 1970's by the massive shifts in school tax burden that occurred when one municipality was reassessed within a given

school division. If equalization was properly designed these dramatic shifts should not have occurred.

Assessment was not equalized during the 1964 to 1975 reassessment cycle with any degree of accuracy and higher levels of inflation in property values compounded the distortions during the next reassessment cycle which was completed during the last year. As a result, the Legislative Assembly passed amendments to The Municipal Assessment Act which froze the equalization function province wide in 1983. Nevertheless, the MWSB formula still requires equalized assessment to be used in the calculation of grant support from the province.

A further indication of the inadequacy of the use of this factor, as a measure of ability to pay, lies in the absence of major users in the equalized base. For example, while schools, hospitals, and churches would use a sewer and/or water utility and pay the appropriate local improvement levies, these institutions are not included in the equalized assessment. Similarly, in some communities major industrial or government establishments which contribute to the local tax base by agreement of by grants-in-lieu of taxes are excluded from the calculation of the equalized assessment either because they are not assessed or are excluded by statute from the calculation.

An additional, although minor, administrative difficulty with the use of any assessment base in the formula is the problem of estimating the assessment base of unincorporated areas in existing rural municipalities so as to establish the provincial support available to these smaller communities. In addition, calculation of their share of the municipality's debt load is somewhat arbitrary. The use of an arbitrary mill rate level to determine when the provincial grant is triggered also has some inequities unrelated to the use of equalized assessment. These levels were established over a decade ago, when construction costs were substantially lower than in the mid-eighties. These mill rate levels have never been adjusted to take cost increase into account; and as a result, local governments must either be content with a lower percentage level of grant support or organize their municipal debt to keep it at a maximum level. Neither alternative is desirable or fair when most municipalities are facing substantially higher infrastructure capital investment demands, and the latter alternative interferes with local financial decision making.

The manipulation of municipal debt by local administrations has reached the ridiculous situation where some municipalities actually issued debentures to create the debt required to ensure grant eligibility and then bought back their own debentures with reserve monies established to fund the project. The inclusion of the debt factor made sense many years ago when few municipalities had water and/or sewer utilities. The inclusion of the local debt load served to compensate those communities which had debts incurred on projects carried out before provincial funding became available. Today almost all urban communities- incorporated or otherwise- have some existing debt related to water and sewage works.

The encouragement to incur debt runs against the fiscal management philosophy of many local politicians and only works because of the grant attached to the debt. (This matter is discussed in more detail on pages 23 and 24.) Some municipalities have relatively low sewer and water debts, but have substantial debts for other municipal infrastructure. These municipalities may not be wealthy, or may even be in financial distress; but they are penalized by the formula because of the nature of the debt they carry. Similarly the requirement for existing debt load often requires municipalities to commit substantial front-end monies to a project and as a result are deterred from initiating these necessary capital works. In some communities debt management is performed in a manner which maximizes the percentage grant available; projects are phased so that the incurring of new debt and the retirement of old debentures is timed to ensure the municipality is always at or near the debt level which is serviced by a 20 mill levy. This requires a fair degree of administrative sophistication, and it is therefore practiced only by the better managed municipalities- however they are not necessarily those in greatest need of maximum grant support. In addition, the practice of phasing when motivated by financial reasons has a tendency to increase construction costs in the opinion of Board staff. The rationale is straight forward: some projects may be accelerated ahead of actual requirements to keep the local debt above the required debt threhold and it is generally less expensive to lump several small projects together rather than tendering each project separately.

The present formula makes no special provision for the costs associated with industrial development, particularly agricultural processing and the abnormal disposal requirements for industrial effluent. Communities attempt to attract industry, often without full regard for the water supply and/or waste disposal problems. The absence of special grants in the formula may not be bad. If the capital costs for infrastructure required to serve new rural industrial development were included in the grant program the monies available would be stretched beyond their limited capacity. Of necessity, the province has accommodated these special demands either by special supplementary

appropriation or by special agreement; viz. Neepawa and Portage la Prairie respectively in the recent past. Nevertheless, a rural industrial development strategy must include the assignment of the costs associated with the required supporting infrastructure. While outside the scope of this analysis, this is a matter where policy must be developed to avoid unplanned demands for provincial funds and the unfair allocation of existing funds on an emergency basis.

The current MWSB formula has another omission which may prevent local government from setting its own priorities without grant induced bias. The formula does not cover storm sewer installation costs even though in some communities these sewers are an essential component in rehabilitative work on existing systems where separation of sanitary and storm sewers may be one of the key steps in system reconstruction.

There has been some debate in the past about whether the MWSB formula should be changed so as 1) to eliminate funding for local service extensions for water or sewer, and 2) to provide a lower level of funding for water distribution systems and sewage collection systems, as opposed to a more substantial grant for water supply and sewage treatment facilities. The argument about extensions essentially involves a comparison between new housing developments which are serviced under development agreements and existing residential areas that have never been serviced despite their existence prior to the community's acquisition of sewer and/ or water. In many cases these residents helped to pay for the water supply and sewage treatment plants under general levies, although they did not pay system operating costs as non-users. The comparison between the two types of installations -new developments vs. old unserviced neighbourhoods- has some validity but until a method can be found to finance these extensions economically and fairly by local levy or otherwise it would seem an unfair denial of provincial support to residents who are faced with substantial personal retrofit costs at the same time.

The second debate about whether major facilities and local distribution systems should receive the same or differing levels of support is a broader question. It is argued that water supply and/ or treatment facilities, storage reservoirs, lift stations and sewage treatment facilities are of more critical importance than distribution and collection systems for water and effluent. In addition, some municipalities are required to develop major treatment facilities at the direction of the provincial Clean Environment Commission. Therefore these major facilities are then essential both for the community and to protect the provincial interests, especially environmental considerations. The corollary argument suggests that the requirements for distribution and collection systems are much more flexible based on local needs and preferences and should therefore attract a smal-

ler grant from the province. Unfortunately, despite the fact that the argument is logical and does reflect the divergent provincial and local interests and responsibilities, that view is part of our infrastructure decay problem. No one wants to pay for the facilities that are buried in the ground or under the road, however some of the most serious rehabilitation needs are in distribution and collection systems. In the opinion of MWSB staff the current formula also biases local government towards new plants rather than refurbishing their utility's underground system. Regardless of historic or logical responsibility, the provincial grant formula should recognise that these "less critical" facilities will continue to be ignored if grant funding is reduced.

The administration by the staff of MWSB of the grant program is reasonably straight forward and has not been the subject of criticism by local government to any significant extent. The approval process starts with a staff evaluation of a project and their report to the Board. The Board ranks all projects in one of four categories; High, Medium, Low and Not Eligible. Low priority projects become "on the shelf" proposals which are only activated as funds become available because of cancellation of higher priority projects. Medium priority applications are serviced on a sequential "first-come, first-served basis. Utility projects which receive the "high" designation must be health risk related and as such may necessitate the juggling of other priority projects. Generally, but not exclusively, the rating system follows these criteria in order: (1) health risk, (2) environmental concerns- that are not specifically health related, (3) first time service, and (4) need to meet provincial standards for service or discharge - other than health risk or environmental standards. For example, while water source standards relating to toxicity are health related and therefore of "high" priority, taste or turbidity standards set by the province for water sources are a lower priority because there is not usually a related health risk.

After the Board has ranked the projects according to the above criteria, the list is submitted to the Minister of Agriculture who in turn submits it to Treasury Board. Cabinet approval is provided by recorded approval of the Treasury Board minutes. The MWSB recommendations are almost invariably approved by the Minister, Treasury Board and Cabinet.

The Board does not submit a long term plan of proposed projects to the government. Only the projects recommended for approval or in receipt of prior year approval are shown on the cash flow analysis done by the Board. Some major capital expenditures by the province are managed on a 5 year capital forecast basis: e.g. the Manitoba Health Services Commission Construction Program; however, the involvement of local governments in utility financing and construction makes long term forecasts more diffi-

cult. Nonetheless, more sophisticated capital investment forecasting by local government would assist in the better management and utilization of water and sewer grant monies.

The MWSB has a role to play in the provincial government's commitment to renewal of the Red and Assiniboine Rivers. A major component of river renewal is water quality improvement and concomitantly pollution abatement. The Board has barely adequate funds to deal with toxicity problems in the two rivers; taste and turbidity standards can not be addressed within the existing appropriation. Higher standards associated with "a major clean-up to upgrade the quality and recreational potential" will necessitate greater resources being directed to the Board.

MAIN STREET MANITOBA

This program was initiated in 1982 to assist local government to finance rehabilitation of central business districts in rural towns and villages. Projects are funded on a first-come/first-served basis. The program provides grants of two-thirds of municipal costs associated with infrastructure upgrading and one-third of private business costs to a maximum of $500. The program has financed both hard services such as sidewalks or street paving and also more cosmetic improvements such as landscaping or painting. One of the principle objectives of the program was to ensure that regional centres did not lose their central business district vitality to shopping centre plazas on the fringe or immediately outside the community. It was believed that a vigorous downtown area would attract retail and service businesses and discourage peripheral development.

Main Street Manitoba has generated a high level of private sector involvement- usually in excess of 75% of eligible participants and often higher than 90%. Main Street Manitoba has served as a vehicle for creating a focus on downtown revitalization for local councils and the local business community. It provided an incentive to the cooperative planning of the commercial hearts of many small towns. In some cases, the committees formed to advance Main Street projects have remained in place to serve the continuing interests of the community as regional or local business centres.

Main Street Manitoba projects are completed, or will be completed this year, in 41 towns and villages and about a dozen communities are on the approved waiting list or finalizing plans for projects.The level of activity under the program peaked in fiscal year 1985/86 when almost $2.7 Million was spent by the province. The program has been one of the most successful government attempts to work cooperatively with local government and local business for two reasons. First, Main Street Manitoba addressed a serious need for rehabilitation assistance in Mani-

toba's rural communities; and second, it was a very generous program which provided a higher percentage of grant support than any other provincial funding vehicles for local government.

The application and approval system for Main Street Manitoba projects was relatively straight forward, but time consuming. The municipality together with the local retail business community developed a proposal within the guidelines established for eligible public and private works. This was submitted to the province where it was reviewed by an inter-departmental project review team- with representatives from Highways and Business Development and Tourism. The review team often made suggestions for changes and improvements particularly if items in the proposal were not eligible for funding. Once both the local community and the departmental staff had agreed on the project details the application was recommended to the Minister and to Cabinet for final funding approval. All projects which were recommended by the project review committee received Ministerial and Cabinet approval. The most time consuming aspect of the process was the initial planning and development stage; some communities relied heavily on the planning staff of the Municipal Planning Branch of the Department of Municipal Affairs for assistance in this phase while others engaged consultants. The consulting and engineering costs were eligible for cost-sharing under the program.

The program successfully met the identified need, however it may have been too successful. It can be argued that the generous funding level combined with the enthusiasm generated by the initial completed projects created a bandwagon effect in which some councils chose Main Street projects to the detriment of other needed investment in infrastructure. On the other hand, the community confidence building and cooperative sense of purpose which many Main Street projects generated may have been a necessary precursor to greater capital investment in hard services. The community's political will and business confidence can both be rejuvenated by this new found confidence. While the argument may be a moot point now, it is clear that Main Street Manitoba has served its purpose as conceived in 1982- if for no other reasons than the peaking in take-up under the program in 1984 and the diminished list of projects left to be undertaken.

A revised program designed to build on the success of Main Street Manitoba's first phase is required in many of the province's towns and cities. Main Street Manitoba could become a program to assist regional commercial and service centres to redevelop their central business districts. It could provide assistance similar to that provided to the City of Winnipeg under the auspices of the North Portage Development Corporation. The program would assist local communities with the costs and mechanics of land assembly and rehabilitation of utilities and other services. The province could play a role as an actor in the

development, if it, or any Crown agencies, have need for office or retail space in the community or region. Both the Ontario government's Downtown Redevelopment Program (ODRP)(of the late 70's)and the Saskatchewan government's joint projects in downtown Regina and Prince Albert are model programs and projects from which many excellent features can be derived for use in a revised Main Street Manitoba.

In Ontario, under the ODRP, the province provided low interest loans to small cities (maximum population 125,000) to cover two-thirds of the cost for land assembly and/ or parking structure costs associated with a downtown urban renewal project. The city or town put the land it had assembled out for proposals by developers; however the city was required to retain ownership of the land. The provincial loan was repayable from two revenue sources: the rental income to the municipality was based on a ground lease with additional rent payments geared to sales, and the municipality received increased municipal property tax revenue. The province received two-thirds of the rental income and one-third of the additional tax revenue to apply as loan repayments. The program ended in 1983 and was replaced by the Commercial Area Improvement Program(CAIP) which bears a striking resemblance to Main Street Manitoba.

The Saskatchewan experience with urban renewal programs has been project specific rather than program directed. Two large redevelopment projects have been jointly undertaken by the province and cities- Regina (Cornwall Centre) and Prince Albert. In both cases the provincial role was to facilitate the project by doing land assembly, placing government or crown corporation offices in the new development, and assisting with financing. In Cornwall Centre, Saskatchewan provided mortgage financing at a rate equivalent to the province's cost for long term money. The site was owned by the province and developed under a 75 year ground lease. Similar to the ODRP the rental payments are in two components- a fixed annual payment (the ground lease) and a variable figure tied to retail sales performance.

Both Ontario and Saskatchewan have had an excellent experience to date with their urban redevelopment programs; however they have both operated in centres larger than most of our urban communities. Nonetheless there are some facets of their experience which are illustrative for a Manitoba program.

STREET CONSTRUCTION GRANT

This program provides a 50% grant to eligible cities, towns and villages to assist in the construction costs of designated roads in these urban areas. This grant-in-aid program is provided for roadways that meet specific criteria as arterial portions of the municipal road network. Generally, but not exclusively, the roads designated as eligible for grant-in-aid by the Department of Highways are those which carry industrial, commercial or institutional traffic loadings. Major residential collector streets have also been approved. Most municipal leaders refer to this program as the Highways Grant-in-Aid for Paving since it usually involves upgrading or reconstruction of a road to a higher standard, often with an urban drainage profile, and a subsequent all-weather hard surface. However, the Department of Highways has funded reconstruction without ensuing hard surfacing. The Department of Highways requires a higher standard of engineering and construction than is usually used for urban streets in our rural communities and the department levies an engineering charge against projects. These requirements do not appear to have dampened the number of requests for designation. In 1985/86 the Department of Highways received requests for funding of $2,631,397 and in 1986/87 for $2,074,622. The estimates appropriation to this program was $1,694,000 and $1,394,000 for the two years respectively.

Although funding under this program has not been sufficient to meet requests for Grant-in-Aid from local governments, the program is very well received in rural communities. Almost 100% of the cities, towns and villages in rural Manitoba participate in the program. Applications for both designation and grant assistance are filed with the Highways District Engineer who assesses the request, discusses it with the municipality, and ranks it according to his evaluation of its priority amongst other Grant-in-Aid requests from the district. Each district has a budgetary share of the appropriated funds and district engineers will often negotiate changes-especially downscaling- so as to fit as many projects as possible into their appropriation. Final approval of Grant-in-Aid projects is given by the Minister.

The Department of Highways has underspent this appropriation in all of the last five years. This occurred for several reasons related to the management and nature of the program despite demand for grants at double the funds available. The department has not over-committed the funds in this appropriation until 1986/87. Therefore, in prior years, any projects which were cancelled on local initiative after receiving provincial approval resulted in designated provincial dollars being

unspent. Sometimes this would occur as a direct result of the downscaling of projects which was often necessary to fit them into existing budgetary constraints. In addition, many municipalities plan to do Grant-in-Aid work when major provincial highways construction contracts are being completed in the immediate area; this can result in dramatic cost savings for local government. Constraints in overall provincial highways construction has resulted in a backlog of anticipated projects at the provincial level which has had the corollary effect of inducing some local towns to delay their projects. Over-commitment of existing budgetary authority will assist in better management of available funds this year, however departmental officials are aware that some caution must be exercised. Although this practice works well for the provincial highways construction program, there is a danger of reaction by municipalities whose committed projects are delayed when the appropriation is exhausted.

Some municipal leaders believe that this program limits demand deliberately by use of the designation requirement noted above. In many cases, communities apply for designation of a major street in anticipation of scheduling construction work thereon. Some municipalities have experienced difficulty in convincing the Department of Highways that specific roads should be designated and it is alleged that designation is often withheld to delay applications for grants until the department anticipates being able to meet the ensuing grant request. Since the department already receives substantially more requests than available funds can finance, there does not appear to be any reason for the department to attempt to manage the demand to accord with available funds; nor is there any evidence that this manipulation occurs.

The province has announced the reduction and possible phasing out of the 50% subsidy provided to Local Government Districts(LGD's) for roads other than Main Market Roads. This was a form of support for rural infrastructure, however it was not available to all municipalities, and was an increasing source of friction for neighbouring rural municipalities who perceived LGD's as relatively well-off financially. The cost to the province of special support for LGD's is in excess of $3.2 Million per year. The component of that support that has been the subject of review for several years constitutes about one-third of this total support package. The balance of the provincial support program funds 100% of the construction and maintenance cost of Main Market Roads.

The relative wealth of municipalities is hard to compare in the absence of an accurate assessment yardstick, however the LGD's have certainly improved their relative position over the last ten years as a result of the sale of lands returned to them by the province and the consequent property tax revenues obtained therefrom. On average, LGD cash reserves are close to

double the average size of reserves maintained by rural municipalities. The budgetary shock of complete removal of special road maintenance and construction support may be difficult for the 11 southern agricultural LGD's to accommodate but a rationalization of the program is required.

An additional problem associated with the diminution of the LGD grants is the sentiment amongst rural municipalities that the province provides special grant support to both urban centres and LGD's but nothing for RM's which also have accelerating infrastructure costs for roads, particularly in the face of increased loadings brought on by railway freight rate changes and elevator closings in recent years. The focal point of higher municipal costs in this sector has been crossing structures-both bridges and culverts of various types. In 1985 dollars, the latest government staff estimates of upgrading and replacement costs for structures that need attention is approximately $220 Million. The costs are evenly distributed between the provincial and municipal road networks.

In response to these concerns the province began two pilot projects in 1985, to assist RM's in developing transportation plans. An interdepartmental committee with representation from Highways, Natural Resources and Municipal Affairs is working with local officials to establish a road designation system to serve as a guide when allocating construction and maintenance dollars; municipalities have begun to recognize that they cannot necessarily maintain their whole road network to the same level and that some priorization is required. While the province has helped with the initial planning stages there has been no provincial assistance for RM's other than occasional grants for bridges or other crossing structures from the MCAP program. At a cost of $110 Million, a bridge upgrading and replacement program is beyond the resources of local government alone.

MANITOBA COMMUNITY ASSETS PROGRAM (MCAP)

This program operated for three years during the government's first term; although the adminstration of the program changed between 1983/84 and 1984/85 the impact of the programs features which affected municipal infrastructure financing was negligible. MCAP primarily funded recreational and cultural projects and only about one-quarter of the funds allocated were directed to municipal government for other purposes such as building or renovating firehalls, bridges, municipal offices or works buildings. However, MCAP was very well received by the communities which received assistance on local projects since no similar program to address municipal infrastructure had provided grant monies since the joint federal-provincial CSCP ended in 1980/81.

MCAP was funded by the JOBS FUND and as such was directed as much at job creation as at building physical community assets. The municipal component of the program gave priority to firehalls and bridges in the latter two years although other projects were also funded as they had been in 1983/84. The program overall was able to provide grants to about 60% of the applicants or on average to about 300 approvals out of about 500 requests each year. The maximum grant, initially set at $100,000, was reduced to $75,000 in the last two years and relatively few applicants applied for the maximum. However many projects were funded on a reduced basis, even though the program advertised "up to 50% funding", for two reasons. First, reduced funding levered greater private sector or community organization participation, resulting in more job creation; and second, a much larger number of projects could be accommodated within the appropriated monies resulting in fewer disappointments amongst community organizations.

The component which received the lowest percentage level of support was local government. An obvious requirement of provincial funding under MCAP was that all other financing was in place to complete the project. When dealing with municipalities this was not a problem because they had both taxing and debenture authority and were generally well administered compared to volunteer community organizations. This provided an opportunity to lever municipal commitments to proceed with projects with a minimal provincial grant. In many cases the provincial support was substantially less than 50% of the total capital cost. In 1985/86 the average level of provincial grant support on municipal projects sponsored by MCAP was less than 30%.

The timing of the application period, and subsequent approvals and/or negotiation of grant levels with local government usually meant that final authorization to proceed with construction was received near freeze-up. This was intentional

because the program was designed to create its maximum number of jobs during the winter months. However, since municipal government operates on a calendar/fiscal year basis, this created cash flow problems for municipalities which do not have budgetary carry forward authority under The Municipal Act and must therefore re-allocate in the subsequent year. Similarly, in each year the program was announced, in the spring, after local governments had established their annual budgets and struck their mill rates. The absence of an ongoing commitment that the program would exist in future years was a disadvantage to proper municipal financial planning and therefore to the municipal component of the program. Some communities proceeded on the assumption that the program would be available the next year and planned accordingly. They were not disappointed until this year. The absence of an MCAP program this current year will prejudice participation in future similar programs unless a commitment is made respecting a minimum lifespan for the program.

MCAP funding to local government for infrastructure purposes, as distinct from grants to recreation or cultural projects sponsored by municipalities, has averaged about $ 1 1/2 Million in each of the three years the program operated.

1983/84	$1,995,000
1984/85	1,545,000
1985/86	1,091,000

The 1984/85 figure above does not include a carry forward amount of $570,000 to complete previously committed projects, from the previous year when the Department of Municipal Affairs administered the program. Therefore, the actual expenditure in 1984/85 was $2,115,000. The total value of projects financed in part by MCAP approached $4 Million in both 1984/85 and 1985/86.
The actual figures are $3,700,389 and $3,883,000 respectively.

The administration of the program was very simple and straight forward. Applications were received by the Labour Market Programs Branch of the Department of Employment Services and Economic Security by July 31st with approvals expected by late September or early October. The Branch consulted with other government departments (particularly Culture, Heritage and Recreation) and prepared an evaluation and ranking of each application. On municipal applications the Department of Municipal Affairs was asked to comment on the application and particularly the ability of the local jurisdiction to handle their side of the financing. The Branch then submitted their evaluation to a MCAP Cabinet Committee which recommended approvals of projects to Cabinet for final approval. Each region of the province was assigned a notional allocation of funds from the program based on local unemployment rates and other need factors. In addition, attempts were made by the Committee to ensure that all regions received a fair share of the total funds available, although in some categories there were few applications. For example, in 1985/86 the Interlake region of the

province made few applications for grants in support of municipal infrastructure, although the same region made a higher than average number of requests for recreational facilities.

One oversight in the administration of the program was the failure to consult with the appropriate departmental officials on all bridge projects. Both the Bridge and Structures Branch of the Department of Highways and the Water Resources Branch of the Department of Natural Resources have laterally expressed concerns about the lack of consultation respecting some municipal crossing structures.

FUNDING LEVELS

Provincial government funding for municipal infrastructure has varied over the last five years as programs have been initiated or terminated. The following table illustrates the funding voted to each of the programs.

In $000's	82/83	83/84	84/85	85/86	86/87
MWSB	$3,000	4,887	5,155	5,055	4,736
MCAP	*	1,995	2,800**	1,500++	*
Main Street	1,500	1,500	1,500	3,000	2,000
Urban Streets	1,694	1,694	1,694	1,694	1,294
LGD 50% Grant+	560	474	380	475	500
Totals	$6,754	10,550	11,529	11,724	8,530

Five year average = $9.817 Million
* No program
** Includes $800,000 carried forward by Municipal Affairs for MCAP 83/84, only $570,000 of which was actually spent in 1984/85.
\+ Includes capital portion only of 50% subsidy - excluding Main Market roads
++ Estimated municipal allocation from MCAP

NOTE: the funding reduction in 1986/87 is primarily attributable to the decline in monies required for Main Street Manitoba and the elimination of the MCAP program; however reductions of $400,000 also occurred in funding for the MWSB and for urban streets.

The anticipated pre-committed carry-over in Main Street Manitoba for 1987/88 is approximately $200,000. If no new Main Street projects are approved no additional funds will be required. The pre-commitments by MWSB are almost $2.8 Million, virtually the entire normal appropriation.

CONCLUSION

Existing programs provided by the province to assist local government to finance infrastructure construction or rehabilitation are reasonably well received by municipal politicians and administrators and are well administered by the provincial departments. Where problems do exist they are being addressed within the existing program delivery framework.

The name of the proposed Rural Development Fund may not be an entirely accurate descriptor since the majority of the grants provided by the existing programs are urban in character and the bulk of the monies in the Fund will probably flow to the 95 cities, towns and villages rather than to the 105 rural municipalities and local government districts.

FEDERAL PARTICIPATION IN MUNICIPAL INFRASTRUCTURE FINANCING

As was noted in the previous section there have been two federal programs that have provided significant funds to local government during the last ten years. Both the Community Services Contribution Program(CSCP) and the Agricultural Services Centres Agreement(ASCA) ended in the early 80's and no new initiatives are anticipated. Both of the above programs were equally cost-shared with the province. The CSCP was allocated on a per capita basis and paid out across the board for all infrastructure projects that met the eligibility criteria.The program was quite valuable to larger centres or heavily populated rural municipalities while smaller communities were often unable to take full advantage because of their much smaller grant. The program was administered by the province through the Department of Municipal Affairs.

The ASCA was designed to provide additional grant monies to rural agricultural centres to allow installation of primary water and sewer systems. Each senior level of government provided about $10 Million over ten years which was used to expand the Municipal Water and Sewer Program of the Manitoba Water Services Board in the targeted communities. Sixteen rural centres were designated as eligible under this program. No similar federal programs exist today in Manitoba; however our neighbouring Province of Saskatchewan has entered into two agreements with the federal government respecting cost-shared financing of infrastructure.

The Saskatchewan and federal governments have signed subsidiary agreements under ERDA: Agricultural Community Water Infrastructure Agreement and Regina-Moose Jaw Water Supply Agreement. In view of the federal reluctance to participate directly in new programs designed to assist in the financing of municipal infrastructure, the use of subsidiary agreements under the ERDA umbrella may be the only opportunity to attract any federal monies into this area. It is doubtful that any new federal monies would be added to the Manitoba ERDA and it may necessitate a re-structuring of provincial priorities towards municipal infrastructure with the loss of funds in other subsidiary agreements.

Federal Minister of Finance Michael Wilson made the federal government's position bluntly clear when he advised the Federation of Canadian Municipalities that it was not the federal government's responsibility to pay for municipal infrastructure at a Toronto conference on December 13th, 1986. Wilson added "I'm under pressure to finance things that are 100% federal jurisdiction." This statement may be the only answer that the provincial ministers of Municipal Affairs receive in response to their unanimous request for negotiations to develop a cost-shared federal/provincial program to assist local government with the capital costs of constructing and refurbishing infrastructure. Although former minister Sinclair Stevens had responded positively to the FCM's initial request for a meeting and discussions, no such meetings took place. The provincial ministers have received no response to their similar request.

The attitude of local government politicians towards federal assistance is interesting in at least one respect. While they share the view that federal monies are unlikely to be available based on their perception of Ottawa's fiscal situation, the executive boards of both the UMM and MAUM are in agreement that if federal monies become available to the new Rural Development Fund at some point in the future, these additional monies should be used to expand the number of projects which can be financed rather than lowering the percentage contribution of the province and the local municipality. There is clearly a recognition that senior government dollars are in short supply and that local government should expect to fund a large share of their individual projects so as to ensure that grant dollars can be widely distributed.

MUNICIPAL INFRASTRUCTURE NEEDS AND FISCAL CAPACITY

During the last several years an increased awareness has developed throughout Canada of the inability of local government to keep pace with the infrastructure needs of communities. This awareness has developed at the same time that senior governments have been faced with increasing fiscal constraints brought about in part by the national recession of the early 1980's and the subsequent failure of government revenues to rebound as the economy recovered.

Both senior levels of government have reduced their contributions in support of local infrastructure financing in Manitoba. In fact, the federal reduction has been equivalent to a virtual withdrawal of support for municipalities, while the provincial government's reduction has been primarily inflation induced- although nominal dollar amounts have remained fairly stable. The funds available to some provincial government programs have been enhanced to compensate for this loss through the addition of Jobs Fund monies in some recent years. For example, the municipal component of the Manitoba Community Assets Program was completely financed from the Jobs Fund. Provincial funding contributions have taken the form of grants-in-aid of specific projects under the auspices of a number of specific programs.

On the other hand, federal funding has been program directed and of specific time duration, generally short-term. For example, the Community Services Contribution Program (CSCP) of 1979-81.There have been no federal programs geared to municipal infrastructure since CSCP ended in 1981."Federal funding over the past 15 years has declined to insignificance".(1) The sole remaining source of federal funding for municipal infrastructure is the PFRA Community Water Source Development Program for communities under 300 population and farmers. It is a modest program delivered in conjunction with the Agriwater program of the Manitoba Department of Agriculture.

The actual and forecast needs of municipalities in Manitoba have been increasing annually at or in excess of the rate of inflation, <u>without</u> a substantial factoring into this needs analysis of replacement or refurbishing costs for existing installations. In addition, rapid inflation of construction costs during the 1970's was not matched by corresponding revenue increases for local government. Most property tax room was absorbed on the education side of the ratepayers' bill, resulting in virtually no property tax flexibility for municipal services, and senior governments did not increase support or access to growth taxes.(Although the Province of Manitoba did provide for income tax revenue sharing in the mid-70's, it was an exception and the total dollars transferred did not resolve the revenue shortfalls of local government.)

The Federation of Canadian Municipalities study entitled "Municipal Infrastructure in Canada: Physical Condition and Funding Adequacy" estimates a national need for $12 Billion infrastructure investment to maintain existing facilities.

While the average age of installed facilities in Manitoba is younger than the Canadian average, the need in this province is still substantial. Many of our province's medium size cities and towns have sewer and water installations of immediate post-war age or earlier which have already outlived their installed lifespan. For example the Town of Dauphin was forced to replace water lines of World War I vintage prior to reconstructing street as part of their Main Street Manitoba project in 1984/85.

The levels of expenditure by local government on municipal infrastructure in the last five years tells an unfortunate tale. Capital funds applied to local improvements dropped by 23% from 1981 to 1982 and did not recover to pre-1982 levels until 1985. On the utility capital account alone, the figures are more alarming; local governments' investment in utilities has dropped steadily each year from $5,566,668 in 1981, to $4,083,770 in 1982, to $3,021,623 in 1983, to $2,615,520 in 1984. A modest increase to $2,941,708 in 1985 still represents a drop of almost 50% during the last five years. (These dollar figures are "actual" not "constant"; if inflation during the five year period is considered the picture is even more alarming. During the same time period municipal expenditures for other capital purposes- essentially equipment - grew at or about the rate of inflation.)

The forecast expenditures by those municipalities that submit five year capital forecasts to the Department of Municipal Affairs (192 out of 200) indicate that municipal five year capital planning is not sophisticated. For example, capital spending projected for 1988-90 is substantially less than that projected for 1986 and 1987. Based on past experience there is no reason to expect this downturn; it must be assumed that the forecast is lower because many of the projects are not yet planned for those later years. The Manitoba Water Services Board projected demand clearly indicates no downturn; however many municipalities either can not or will not forecast certain types of capital expenditures unless senior government funding is assured or reasonably anticipated for that year. To do otherwise might unnecessarily raise local ratepayers' expectations.

Nevertheless, capital forecasts for 1986 to 1990 inclusive for water and sewer alone are almost $28 Million, exclusive of provincial grants which at past program levels might average $3 Million per annum or $15 Million over this 5 year period. That would indicate a provincial contribution of about 35% over the period compared to a recent historical average in the low 40's in perceniage terms. The facts indicate that these forecasts are not only incomplete, but that they also grossly under estimate the scale of infrastructure investment both contemplated and required by local governments.

For illustration purposes, it may be useful to examine a report done for the Town of Selkirk in March 1986 by the Town's Works Department. This report identifies water and sewer (both sanitary and storm) capital construction requirements on a first, second and third priority basis. Only the storm sewer projects are new- the balance are replacement or upgrading of existing services. The estimated total monies required to meet existing service requirements- without servicing new ratepayers, either residential or commercial/industrial- is in excess of $13 Million. Only $1 Million of this estimate is included in Manitoba Water Services Board projections noted above.

The MWSB estimates that the demand for sewer and water capital over the next seven years will be in excess of $80 Million. If the Board were to fund these projects at the same average percentage experienced in recent years, these projects would require approximately $35 Million in provincial grants. The Board estimates that grant funding to municipalities should increase to $7.5 Million per year in 1986 dollars to maintain adequate water and sewer infrastructure support in line with anticipated local demand.

These calculations by the Board are based on current environmental standards or orders from the Clean Environment Commission and on existing water quality standards. The bulk of capital funds would be required to bring existing systems up to current standards. Only a small portion of current board budgets is earmarked for what is perceived to be the "less urgent" replacement or rehabilitation projects such as those described in the Town of Selkirk report cited above. The Board estimates that about 80% or $6 Million out of a $7.5 Million demand will be needed to meet these environmental/public health standards. Therefore, even a substantial increase in funding dedicated to water and sewer capital requirements will have only a small impact on the need for replacement of aging and deteriorated existing systems. The most serious deterioration of utility infrastructure is in underground services, while the largest cost projects currently in planning involve water or waste treatment plants.

The failure of local government to maintain its infrastructure is not simply a question of neglect by it or the provincial government. Municipal governments faced the same high interest costs as other levels of government and the private sector in the early 1980's. Nevertheless, high money cost was a restrictive factor on municipal infrastructure investment at a time when increased new construction and refurbishing/maintenance investments were urgently required for both primary functions and environmental reasons.

The FCM report on municipal infrastructure noted a "growing tendency to use pay-as-you-go financing" and commented on the corollary problems which flow from high interest rates. The report identifies several concerns with this approach: (1)infrastructure capital needs compete with current operating requirements; (2)long-term planning and project phasing becomes uncertain; and (3) staff resources are applied on an ad hoc rather than a planned basis.

Pay-as-you-go financing is seen by most municipal leaders, who have chosen this method in the 80's, as the suitable and practical alternative dictated by the above noted factors affecting municipal finances. However, it is also a philosophical choice of several financing options. Two basic principles are precluded by the pay-as-you-go choice: "inter-generational equity" and "user pay". This is a logical development from the perspective of municipal politicians who operate under a statute which prohibits operating deficits and promotes a particular view of "fiscal responsibility" (The Municipal Act). That sense of fiscal responsibility often includes the view that any debt which is not essentially self-servicing is an unfair burden on future generations. This view is compounded by a nervousness about future volatility in interest rates which would place a much larger burden, than the original capital debt, on future generations.

The requirements of The Municipal Act also induce municipal leaders to view local government finance from a personal rather than corporate perspective. That view is reinforced by the depression mentality occasioned by the recent recession. The rural view in Manitoba- an accurate perception from an agriculture dependent community-is that the recession has not abated. There is a nervousness and lack of confidence about the economic future of both Manitoba and Canada. Many rural leaders perceive Manitoba's agricultural sector as "living off our depreciation"; however the same perception does not seem to have developed respecting municipal infrastructure where the failure to invest is also a serious problem and the same old axiom applies. The bottom line for municipal leaders is an unwillingness to incur debenture debt for the purpose of sharing the intergenerational costs on a "benefits" or "user pay" basis. As described above , the rationale for this opinion is perceived

as logical and is not disingenuous.

Nevertheless, there is a reasonable degree of funding flexibility at the local level. Very few municipalities are at or near their regulated borrowing ceiling. The current debt ceiling is calculated at 30% of the equalized assessment for a municipality. (Only the City of Portage la Prairie has been authorized by agreement with the provincial government to exceed this level.) However, only 13 municipalities are currently in debt in excess of 20% of their equalized assessment. The capital expenditure forecast for the next five years -subject to the earlier noted caveat respecting reliability of same- suggests that slightly more than half the capital funds will be raised by debentures ($34,435,000 out of $65,939,061). However one-quarter of the capital funds ($16,583,511) will come from reserves; in 1984 total municipal reserves were audited at $51,285,752. (this figure excludes $91,300,452 held in reserve by the City of Winnipeg) In addition, local governments plan to fund $10,278,050 of capital spending from annual operating accounts. These figures demonstrate that some municipal flexibility exists to handle increased capital expenditure on infrastructure.

There are regional and local differences amongst municipalities in their perceived and real ability to pay for increased capital projects. However, an accurate and equitable formula for measuring ability to pay does not exist. The only measure currently used -equalized assessment- is used by the Manitoba Water Services Board and is generally acknowledged as totally inadequate. (See Pages 6 and 7) However, until assessment reform introduces a province-wide uniform assessment base, no assessment rooted comparisons will be valid as measures of relative wealth and/or ability to pay.

In addition, any evaluation of the total fiscal capacity of local government must not ignore the competing needs for capital dollars that non-utility projects initiate. Since the rural development fund is proposed as a funding vehicle for utility related projects only, other capital funds must be available for equipment, recreation and culture projects. In other words, it should not be assumed that municipal fiscal room, as identified in this section, can be exclusively dedicated to funding municipal infrastructure on a cost-shared basis with the new fund.

RECOMMENDATIONS

1) The RURAL DEVELOPMENT FUND

(a) This Fund proposed by the Premier last March should be established at the commencement of the next fiscal year, if possible, to serve as an umbrella funding agency for all provincial grant monies which will flow to local governments as capital funding for infrastructure.(The City of Winnipeg excepted) To reflect its mandate, it could be styled "THE MUNICIPAL DEVELOPMENT FUND".

(b) The Fund should be controlled by a cabinet committee functioning in the same fashion as the ad hoc committee which handled MCAP decisions or the ERIC/ Jobs Fund Board. The most appropriate existing mechanism would appear to be the Provincial Land Use Committee of Cabinet(PLUC). PLUC has ministerial representation from all rural oriented departments and from all departments which deliver programs designed to assist with the funding of municipal infrastructure, with the exception of Employment Services and Economic Security(MCAP). It could be styled as the PLUC/ Municipal Development Fund Board. The alternative would be to establish a new cabinet committee of rural ministers to oversee the Fund. The Chairperson of the Committee should be either the Chair of PLUC or the Minister of Municipal Affairs.

(c) The Fund should make all grant allocation decisions respecting existing programs which grant monies to municipalities: The Municipal Sewer and Water Program of the Manitoba Water Services Board, Main Street Manitoba of the Department of Municipal Affairs, the Street Construction Grant (Grant-in-Aid) of the Department of Highways and Transportation Services, and the equivalent successor program to the municipal component of MCAP.

(d) Grants should be the same percentage for all programs and all applicants, with variations(if any) permitted only in special cases. The normal grant should be 50% of the eligible portion of the project's cost. This change will ensure that provincial grants will not unintentionally sway local government preference for particular types of projects based on disparate grant entitlement. Some flexibility could be used for particular types of projects under the auspices of MWSB or MCAP if desired; but the most straight forward and understandable system of granting funds would consist of a single across the board level of provincial support. If a higher percentage of support is used on a project or group of projects, it should be clearly justified as serving provincial priorities beyond the local municipal need.

Until an accurate measure of relative wealth or ability-to-pay is available, no differentiation amongst various municipalities should be factored into any granting formulae used in the administration of the Fund.

(e) The Fund should not be involved in funding other programs which deliver monies or other resources to unorganized/ unincorporated territory within the province; these areas fall almost exclusively within the jurisdiction of the Department of Northern Affairs and none of these unorganized communities have the resources to participate in the programs listed above. These communities should continue to rely on their host department and delivery vehicles designed especially for their local circumstance. The programs designed for unorganized territory are usually more generous in dollar terms and are often cost-shared with the federal government. The major exception to the above is Indian Reserves on which responsibility for infrastructure is entirely a federal government responsibility.

(f) The Fund should receive an appropriation similar in style to that provided to the Jobs Fund. The division between capital and current accounts should reflect current practice with regard to the individual programs to be funded. A notional allocation of the monies in the Fund can be made for that purpose; however the Fund should have full flexibility to transfer monies from one program to another to reflect demands from local government or changing priorities within a fiscal year. Therefore the Fund should receive a lump sum appropriation.

(g) The government should commit resources to the Fund for at least five years, and possibly seven years. This should include a declared minimum funding level for the period. This will provide assurance to local government of the availability of grants for projects which will take more than one year to complete or which require phasing over several years for either budgetary or other reasons.

(h) The Fund should have pre-commitment authority similar to that used by the Department of Highways and Transportation Services to pre-tender a portion of the highways construction program. (This will only be possible if Recommendation 1(f) above is accepted and operative.) This requirement is particularly important to the MWSB.

(i) The Fund should make decisions on grant applications under its various programs upon submission for grant approval by the Minister responsible for the administration of each program. In line with the manner in which the MCAP committee operated, no subsequent application to Treasury Board for approval to disburse the funds should be required.

(j) The province should ensure that its priorities in economic development and environmental control projects are effectively considered as part of the Fund's ranking of applications for grants. In the absence of a comprehensive rural industrial development strategy and a set of province-wide environmental control standards, only an additional screening process at the provincial level will help avoid potential problems. That mechanism could be the committee of deputies sitting as the Interdepartmental Planning Board(IPB) or a smaller group of staff from the environment and economic development branches of the provincial bureaucracy. The Fund's ministers must have that advice prior to making grant decisions on major water or sewer projects.

2) FEDERAL COST-SHARING

(a) The provincial government should pursue federal support for municipal infrastructure capital monies. The two opportunities most likely to be productive, if any are to be, will be the approach by the national conference of provincial Ministers of Municipal Affairs and the development of a new subsidiary agreement under ERDA. However, establishment of the Fund was not originally, and should not now be predicated on federal participation.

(b) The Ministers of Municipal Affairs have agreed to a joint approach to Ottawa for a national program of federal/ provincial cost-shared grants in support of local infrastructure. Manitoba's MInister of Municipal Affairs should continue to support this united approach as a means to keep national pressure on the federal government.

(c) The provincial government should give high priority to the negotiation of a sub-agreement under ERDA similar to those signed by Saskatchewan in April, 1984. If negotiated , this sub-agreement(s) could be integrated with the Fund in the same way that the Tourism Sub-agreement was linked to the Jobs Fund.

(d) The possibility of signing a subsidiary agreement under ERDA dealing with urban renewal in Manitoba communities outside Winnipeg should also be explored. This agreement would dovetail with the proposed changes to Main Street Manitoba recommended herein. Exploratory discussions have been held with federal government ministers and the Town of Selkirk, which led municipal officials to be optimistic about possible federal involvement.

3) PROGRAMS

The existing programs listed in (1)(c) should continue to operate within the departments of government which have delivered the programs in the past. The Fund will be their source of grant monies but the administration of the programs should not be substantially altered since in all cases it seems to be well done and well received by local government.

Municipal Sewer and Water Program (MWSB):

(a) Grant calculations under this program would be completely simplified by the implementation of an across the board 50% support grant for infrastructure. The change made in 1984 to provide a floating interest rate would be redundant since debenture debt and equalized assessment would no longer be relevant considerations in determining grant entitlement.The special considerations for northern and hard rock construction conditions should be retained in the formula as justifiable

special conditions. These special conditions would have the potential effect of increasing the grant to communities eligible for both to in excess of 60% of project cost. However any apparent advantage would be offset by higher overall costs. Capping the special grant at a maximum of 60% of project costs merits consideration.

(a.1) In the event that the provincial government is unable to implement 50/50 cost-sharing, the MWSB existing formula should in the very least be amended to reflect total debt and appropriate capital reserves of municipalities rather than solely utility debt. Reserves should include debentures which were self-purchased by the municipality. These figures are contained in the audited annual financial statements of municipalities and would require no special calculations.

(b) The Fund should not distinguish between major treatment facilities for water and/ or sewage and local distribution and collection systems when making grant decisions, unless Clean Environment regulations are a consideration in the decision. Where environmental reasons dictate a choice, that rationale should be clearly stated from the outset.

(c) The Fund should continue to grant monies under MWSB programming for extensions of water and /or sewer mains to service previously existing residences within the municipality. Further research should be done on this subject to attempt to find a local financing system that would provide a reasonable cost option to retrofitted residences.

(d) The Fund should not be used as a source for water supply and/ or treatment plant operating subsidies. That function should continue to be vested in the MWSB since they operate or regulate the utilities involved but it would appear to be an improper use of MWSB's or the new Fund's capital grant monies to pay operating subsidies. (In 1987/88 this subsidy is projected to be $250,000.) Funds for this purpose should be supplied in the operating estimates of the Board in the host department.(Agriculture)

(e) The MWSB policies should specifically include a reference to the eligibility of storm sewers for grant funding under projects in which storm sewer works are an essential part of a solution to sanitary problems. This is current practice, but only through a "backdoor" method by which the works are funded as part of a "best solution" principle.

(f) The provincial government should examine in detail the question of requiring local governments to establish replacement reserves for sewer and water systems. The long-term financial and physical health of local utilities should not be placed in jeopardy again by the inability of local governments to meet their infrastructure obligations. The obvious solution would be to require full replacement reserves maturing at or near the expected lifespan of the infrastructure to which the reserve relates. This could be regulated by the Public Utilities Board. The establishment of reserves should be phased into effect to avoid rate increase shocks to sewer and water users. Failure to build reserves will place municipalities forever at the door of senior governments for infrastructure capital grants. This is a very complex question and although the purpose of a reserve requirement is clear, the method of implementation will require substantial detailed research and analysis.

Main Street Manitoba:

(a) This program should be phased out in its present form since the market for the program is waning. The projects currently awaiting approval should be carefully reviewed. In the review less emphasis should be placed on cosmetic improvements and a greater emphasis on hard service infrastructure that will enhance the long-term commercial investment prospects of the community. The sponsoring municipalities may wish to reconsider their projects in view of the grant reduction to 50%. The grants provided to private businesses which participate in the program should remain at 33 1/3 % up to a maximum of $500. The projects that are approved should be completed within the next two years and then this phase of Main Street Manitoba can be terminated.

(b) Main Street Manitoba should become a central business district redevelopment assistance program for larger towns and cities in the province which serve as regional service centres. The program would provide assistance with those areas of redevelopment that are most difficult for private sector developers and municipalities; principally the relatively high cost of downtown land and the difficulty in assembling parcels large enough to warrant major investment.

(c) The new Main Street Manitoba should be project specific. The program criteria should be general in nature and not restrictive. This will allow the province and specific cities and towns to develop terms and conditions that are appropriate to the local circumstance. The program should however require a provincial role in land assembly although ownership would most appropriately be vested in the municipality or possibly a development corporation involving both levels of government. The use of a development corporation would be most appropriate if it was anticipated that federal participation (as in the City of Winnipeg) was possible. The development corporation or municipality would put out a proposal call for a development proposal, based on a long term lease, which could involve office and housing components in addition to a retail element. The pay back mechanism for the provincial investment would involve both a ground lease and escalators tied to the revenues of the development.

Street Construction Grant:

(a) This program should be maintained in its present form with respect to assistance to cities, towns and villages.

(b) The province should create a new program to provide for assistance with the cost of upgrading or replacing water crossings. This "Bridge Replacement Program" should be tied to the development of transportation plans within municipalities or planning districts. This would ensure provincial input into the standards required for different categories of crossings, since the planning work will be done with the assistance of staff from three departments- Highways, Natural Resources and Municipal Affairs. The program would not require substantial monies for several years since no municipalities have completed transportation plans and had them approved by the province. In the interim, some funding for bridge replacement could be made available under the successor program to MCAP. The Bridge Grant Program should apply to both urban and rural municipalities.

NOTE: It is not necessarily recommended that the Department of Highways and Transportation Services become involved in the actual engineering of structures as they currently do with grant-in-aid roads. This might well be an impossible burden for the department and also viewed as an intrusion by local government since the province is often accused of imposing "Cadillac" crossing standards upon local municipalities. However, if provincially approved transportation plans are a prerequisite for any provincial funding, preliminary engineering work by provincial staff will be required as part of the process of developing the plans. An additional advantage of the planning process will be an enhancement of municipal awareness of crossing standards.

Manitoba Community Assets Program:

NOTE: This program no longer exists; its successor program for community organizations will be a grant program administered by the Department of Culture, Heritage and Recreation using lotteries funds. The program will not have a municipal component of the type available under MCAP; municipal recreational and cultural projects will be eligible under this new program. However the need for grant monies for special projects not covered by other infrastructure funding programs is clear and a municipal oriented program is still required.

(a) The Rural Development Fund should fund a Municipal Assets Program designed to assist local government with the costs of firehalls, municipal offices and public works buildings, landfill sites, and bridges. Grants for almost all other essential infrastructure is provided in other programs which will be under the auspices of the new Municipal Development Fund.

(b) The administration of this new program would most appropriately be handled by the Labour Market Programs Branch of the Department of Employment Services and Economic Security which administered MCAP so successfully. However staff changes resulting from the development of the new lotteries funded community assets program may render this option impractical. An alternative approach would place administrative responsibility for the new program in the Department of Municipal Affairs with field staff assistance from the Labour Market Programs Branch.

(c) The evaluation and initial ranking of applications for grants should be done by the Municipal Advisory and Financial Services Branch of the Department of Municipal Affairs with advice from other departments depending on the nature of the applications. For example, the Environmental Management Branch would comment on landfill sites; the Fire Commissioner's Office would provide information on firehall applications; and the interdepartmental committee on municipal transportation network planning would assist in evaluating bridges.

4) FUNDING

(a) The new Fund should receive a lump sum appropriation of $15 Million for each of the next five years.

(b) The new Fund should receive an initial allocation equivalent to the level of funding provided to its component programs over the last five years.

(c) The new Fund should be used as a granting vehicle for monies earmarked by the River Renewal Program for water supply and effluent quality improvements for communities on the Red and Assiniboine Rivers other than Winnipeg. These funds should be funnelled through the MWSB for municipal water and sewer projects.

(d) Although the new Fund will determine the funding levels required by each program, a notional allocation should be made for legislative estimates and planning purposes. It could be as follows:

		$000,000's	
MWSB	i) existing program	$7.5	
	ii) river renewal/ water quality	2.5	
Main Street	i) completion of existing program	.5	
	ii) downtown redevelopment land assembly	.5	
Street Construction Grants			
	i) continuation of existing program	1.5	
	ii) bridge replacement program	1.5*	(.5)
MCAP	i) municipal component	1.0	(2.0)
		$15.0	

*Initially the bridge replacement program would not require this level of funding because of the time lag involved in developing transportation plans. Some funds for bridge grants should be provided by MCAP until municipalities qualify for support under the replacement program. The bracketed figures could be used to reflect anticipated program take-up for bridge grants for the first two years of the Fund.

NOTE: Municipal budgets, which will be struck in March 1987, may not anticipate participation in some of the revised programs under the new Fund. As a result, there will probably be minimal additional program take-up in 1987/88 and a consequential reduced first year funding requirement.

1. Municipal Dimensions; Federation of Canadian Municipalities (Vol. 4, No. 1), Page 5.